

# Instructions for Collecting Vehicle Sales Tax from Buyers Who Will Register and Title Their Vehicle in Another State

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Sales tax must be collected on vehicles bought and delivered in Michigan for titling and registration in another state. Below is a summary of the law pertaining to the collection of that tax.

1. The Michigan sales tax on a retail sale of a vehicle to a person who obtains a special registration (14-day in-transit) cannot exceed the sales tax that would have been charged by the other state. (See "Special Registration" below.)
2. The sale of a motor vehicle is **exempt** from Michigan sales tax if the vehicle will be titled and registered in one of the following exempt or non-reciprocal states.

Exempt States: Alaska, Delaware, Montana, New Hampshire and Oregon. These states have no sales tax. New Mexico has no sales tax on vehicles.

Non-Reciprocal States: Arkansas, Maryland, Mississippi, Oklahoma, West Virginia, the District of Columbia, North Carolina and Nebraska.

Non-reciprocal states impose a use tax even though the sales tax was paid in another state. To avoid double taxation, vehicles to be titled and registered in these states are exempt from Michigan sales tax.

To determine the tax due for vehicles to be titled in all other states, refer to the sales tax table and examples on the following pages.

3. If a special registration (14-day in-transit) is not obtained, Michigan sales tax is due on vehicles purchased and delivered in Michigan for titling and registration in another state, including exempt states noted in item 2.

**Special Registration.** Vehicle dealers will use form RD108 when a special registration is obtained. The RD108 must contain: 1) a statement that the vehicle will be removed from this state for titling and registration in another state (in the "Remarks" section); and 2) the out-of-state address of the registrant.

Dealers must retain all RD108's for documentation at audit.

**Trade-in Allowance.** The Michigan trade-in allowance discontinued February 1, 1985. However, persons purchasing vehicles in Michigan for titling and registering in another state are allowed to use that state's trade-in allowance when computing tax due in Michigan.

**Foreign Registration.** Persons buying vehicles for titling and registration in another country must pay 6 percent Michigan sales tax.

# Calculating the Michigan Sales Tax

1. Compute the other state's sales tax, reduced by the trade-in allowance permitted in that state. See the SALES TAX TABLE on page 3.
2. Compute Michigan sales tax by multiplying the value of the vehicle by 6% (.06).
3. Michigan sales tax due is #1 or #2, whichever is less.

## **Example A: Vehicle to be titled and registered in Iowa.**

|    |                   |                                   |
|----|-------------------|-----------------------------------|
| #1 | \$10,000.00       |                                   |
|    | <u>- 3,000.00</u> | (Trade-in allowed in Iowa)        |
|    | \$ 7,000.00       |                                   |
|    | <u>x 5%</u>       | (Sales tax rate in Iowa)          |
|    | \$ 350.00         | Iowa sales tax                    |
| #2 | \$10,000.00       | (No trade-in allowed in Michigan) |
|    | <u>x 6%</u>       | (Sales tax rate in Michigan)      |
|    | \$ 600.00         | Michigan sales tax                |

In Example A, the Michigan sales tax due is \$350.

## **Example B: Vehicle to be titled and registered in Illinois.**

|    |                |                                     |
|----|----------------|-------------------------------------|
| #1 | \$10,000.00    | (No trade-in presented on purchase) |
|    | <u>x 6.25%</u> | (Sales tax rate in Illinois)        |
|    | \$ 625.00      | Illinois sales tax                  |
| #2 | \$10,000.00    | (No trade-in allowed in Michigan)   |
|    | <u>x 6%</u>    | (Sales tax rate in Michigan)        |
|    | \$ 600.00      | Michigan sales tax                  |

In Example B, Michigan sales tax due is \$600.00.

# Sales Tax Table

## SALES TAX RATES AND TRADE-IN ALLOWANCES

| <u>State</u>   | <u>100% Trade-in<br/>Allowed</u>                              | <u>Tax Rate</u>       |
|----------------|---|-----------------------|
| Alabama        | YES   | 2% for vehicles       |
| Arizona        | YES   | 5.6%                  |
| California     | NO  | 7.25%                 |
| Colorado       | YES   | 2.9%                  |
| Connecticut    | YES   | 6%                    |
| Florida        | YES   | 6%                    |
| Georgia        | YES   | 4%                    |
| Hawaii         | YES   | 4%                    |
| Idaho          | YES   | 6%                    |
| Illinois       | YES   | 6.25%                 |
| Indiana        | YES   | 6%                    |
| Iowa           | YES   | 5%                    |
| Kansas         | YES   | 5.3%                  |
| Kentucky       | YES - (only when new<br>car is purchased<br>from a KY dealer) | 6%                    |
| Louisiana      | YES   | 4%                    |
| Maine          | YES   | 5%                    |
| Massachusetts  | YES   | 5%                    |
| Michigan       | NO  | 6%                    |
| Minnesota      | YES   | 6.5%                  |
| Missouri       | YES   | 4.225%                |
| Nevada         | NO  | 6.5%                  |
| New Jersey     | YES   | 6%                    |
| New York       | YES   | 4.25%                 |
| North Dakota   | YES   | 5%; 3.5% mobile homes |
| Ohio           | YES - new car<br>purchases only                               | 6%                    |
| Pennsylvania   | YES   | 6%                    |
| Rhode Island   | YES - passenger<br>cars only                                  | 7%                    |
| South Carolina | YES   | 5% - \$300 ceiling    |
| South Dakota   | YES   | 3%                    |
| Tennessee      | YES   | 7%                    |
| Texas          | YES   | 6.25%                 |
| Utah           | YES   | 4.75%                 |
| Vermont        | YES   | 6%                    |
| Virginia       | NO  | 3% - \$35 minimum     |
| Washington     | YES   | 6.5%                  |
| Wisconsin      | YES   | 5%                    |
| Wyoming        | YES   | 4%                    |